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Diana T Fritz 02/05/2007 05:41:45 PM From DB/Inbox: Search Results

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UNCLAS ABU DHABI 03079

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UNCLAS SECTION 01 OF 02 ABU DHABI 003079

SIPDIS

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STATE FOR NEA/ARP, NEA/RA, EB/OMA
STATE PASS USTR FOR AMB ZOELLICK
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SUBJECT: THE UAE: A GOOD PARTNER LOOKING FOR AN FTA

11. (SBU) Summary: Over the last few years, relations between the UAE and the U.S. have deepened and expanded in the military, counter-terror, and nonproliferation arenas. Senior UAEG officials want our economic links to become as close as our other ties and argue that a Free Trade Agreement would be the best way to cement this relationship. The UAE has also taken significant steps in the Trade and Investment Framework Agreement (TIFA) council to demonstrate its worth as a future FTA partner and is looking for some positive response from the USG to keep the momentum moving. We do have concerns that will need to be addressed, such as labor laws, laws requiring majority local ownership of companies established in the UAE, and the Arab League boycott. The UAEG is aware of these concerns and has either begun to resolve them or recognized that they would need to be resolved in the context of a FTA negotiation. End Summary.

12. (SBU) There are a number of compelling arguments supporting an FTA with the UAE. It would improve our access to the third-largest economy in the Arab world and expand opportunities for U.S. businesses, workers, and farmers. The UAE is a major trade hub and a major regional financial center, which has pursued largely pro-free market and free-trade policies. Last year the U.S. exported \$3.5 billion in goods to the UAE and there are approximately 500 American companies physically present in the country. They could potentially all benefit from changes in UAE laws that

would accompany an FTA.

Economy

13. (SBU) The UAE is both a rich and rapidly developing country. With a per-capita GDP of nearly \$20,000 and an estimated real economic growth rate this year of 5.5% to 6%, it can be a growth market for U.S. exports in goods and services. Some of the key sectors for U.S. exports include construction/engineering, information technology, and the oil services sector. The UAE is also a potentially huge market for financial services, especially now that it is benefiting from high oil prices and the inflows of capital from the region.

14. (SBU) UAE Economic growth is benefiting both from high oil prices and solid non-oil growth. Last year, exports of crude oil earned the UAE about \$22 billion. This radically slashed the consolidated budget deficit and facilitated the funding of investment projects here and abroad. Based on current trends, the UAE is likely to top last year's oil earnings. The UAE has also benefited from being a haven of stability in a turbulent region, attracting both foreign investment and local investment to fund development projects and the stock market. A western banker recently told EconChief that the UAE had about \$40 billion worth of projects in the pipeline at the planning and discussion stage.

TIFA Council Success

15. (SBU) On April 26, The U.S. and the UAE had a very successful TIFA Council meeting in Washington. Since that time, the UAE has moved aggressively to address issues that the U.S. raised during the meeting, most impressively in the IPR arena. After we raised concerns about IPR enforcement problems at the TIFA council meeting, the Embassy successfully worked with U.S. Pharmaceutical rights holders to have the UAEG block the sales of drugs that infringe Pfizer's patent on Viagra. In addition, the Business Software Alliance has ranked the UAE as the country with the lowest software piracy rate in the Middle East and 15th in the world with a software piracy rate of 34 percent (as opposed to the U.S. at 22 percent).

16. (SBU) The UAE has also applied to join the Information Technology Agreement (ITA) at the WTO and has informally requested U.S. support for its accession. It has formally notified the U.S. that it has no intention of implementing the GCC's International Conformity Certification program, which the USG viewed as a barrier to trade, and it has provided a great deal of information about its commercial legal environment to help guide U.S. officials. Although the labor law is still a concern, the UAE cabinet has instructed the Ministry of Labor to draft a new law that would permit the establishment of labor unions.

Problems and Issues

17. (SBU) Although the UAE has a generally open economy with strong opportunities for U.S. businesses, we still have several concerns that need to be addressed. These include the Arab League boycott, the UAE labor law, and UAE laws regulating foreign investment. UAEG officials have told us that they are committed to resolving outstanding issues, but they have stressed that some issues must be resolved during FTA negotiations rather than during TIFA Council discussions. For example, revising agency/commercial requirements will be politically sensitive because many nationals own profitable agencies and some less affluent Emiratis depend entirely on the income from providing such services. UAEG reformers would plan to use the carrot and stick of FTA negotiations with the U.S. to make changes to the agencies law and the commercial companies law (at least as they apply to U.S. firms). The UAE also understands

that it needs to resolve outstanding Arab League boycott issues.

Our Negotiating Counterpart

18. (SBU) Dr. Mohammed Khalfan bin Khirbash is the well-regarded Minister of State for Finance and Industry. He was charged with negotiating the TIFA with the U.S. and chairing the UAE's TIFA Council. Ministry of Finance officials have told us that he will also lead the UAE side in any future FTA negotiations. This is good news for us. He is a practical, results oriented individual, who received his BA from Boston University and has attended the Harvard Kennedy School of Government's executive education program. Khirbash is particularly adept at refereeing and settling bureaucratic turf battles inherent to the loose, confederal structure of the UAE. He also appears to have the support of the ruling families of both Abu Dhabi and Dubai.

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